

# **Audit Report**

## **Mnquma Municipality**

For the Year ended 30 June 2012

# REPORT OF THE AUDITOR-GENERAL TO EASTERN CAPE PROVINCIAL LEGISLATURE AND THE COUNCIL ON MNQUMA LOCAL MUNICIPALITY

## REPORT ON THE FINANCIAL STATEMENTS

### Introduction

- I have audited the financial statements of the Mnquma Local Municipality set out on page xx to xx, which comprise the statement of financial position as at 30 June 2012, the statement of financial performance, statement of changes in net assets and the cash flow statement for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information and the accounting officers report.

### Accounting Officer's responsibility for the financial statements

- The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practices (Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No.56 of 2003) (MFMA), and the Division of Revenue Act of South Africa, 2010 (Act No. 1 of 2010 as amended) (DORA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor-General's responsibility

- My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the *General Notice* issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
- An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
- I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my unqualified audit opinion.

### Opinion

- In my opinion, the financial statements present fairly, in all material respects, the financial position of the Mnquma Local Municipality as at 30 June 2012, and its financial performance and cash flows for the year then ended in accordance with Standards of GRAP and the requirements of the MFMA.

### **Emphasis of matter**

7. I draw attention to the matter below. My opinion is not modified in respect of this matter.

### **Material Impairments**

8. As disclosed in note 6 and 7 to the financial statements, an amount of R85, 1 million (2011: R 80, 1 million) has been impaired as a result of non payment of consumer debtor accounts.

## **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

9. In accordance with the PAA and the *General Notice* issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

### **Predetermined objectives**

10. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report as set out on pages xx to xx of the annual report.

11. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury annual reporting principles and whether the reported performance is consistent with the planned objectives. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the *National Treasury Framework for managing programme performance information*.

12. The reliability of the information in respect of the selected programmes is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).

13. There were no material findings on the annual performance report concerning the usefulness and reliability of the information.

### **Compliance with laws and regulations**

14. I performed procedures to obtain evidence that the entity has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations as set out in the *General Notice* issued in terms of the PAA are as follows:

### **Budget**

15. Monthly budget statements were not submitted to the provincial treasury, as required by section 71(1) of the Municipal Finance Management Act.

16. Expenditure was incurred in excess of the limit of the amounts provided for in the votes of the approved budget, in contravention of section 15 of the Municipal Finance Management Act.

## **Annual financial statements, performance and annual report**

17. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the Municipal Finance Management Act. Material misstatements of non-current assets and disclosure items identified by the auditors in the submitted financial statement were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

## **Procurement and contract management**

18. Contracts and quotations were awarded to bidders that did not score the highest points in the evaluation process, as required by section 2(1)(f) of Preferential Procurement Policy Framework Act.

## **Expenditure management**

19. Money owing by the municipality was not always paid within 30 days of receiving an invoice or statement, as required by section 65(2)(e) of the Municipal Finance Management Act.
20. The accounting officer did not take effective steps to prevent irregular expenditure, as required by section 62(1) (d) of the Municipal Finance Management Act.

## **Asset management**

21. An effective system of internal control for assets (including an asset register) was not in place, as required by section 63(2)(c) of the Municipal Finance Management Act.

## **Internal control**

22. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the basis for opinion, and the findings on compliance with laws and regulations included in this report.

## **Leadership**

23. Intense political influence has created instability of leadership and an environment of uncertainty at the municipality, which results in a potentially weaker control environment.
24. Instability surrounding the leadership of the municipality resulted in a failure to assist the municipality with monitoring the control environment and review of financial data required to prepare complete and accurate financial data, municipal oversight has therefore been ineffective.

## **Financial and performance management**

25. The municipality did not create a daily and monthly control environment to assist the year end processes required to submit accurate and complete financial data for submission of the annual financial statements.
26. Year end processes required to compile annual financial statements are onerous and have resulted in material misstatements requiring correction through the audit process.

**Governance**

27. The municipality has not appropriately acted upon reports and recommendations issued by internal audit and the audit committee, these governance bodies have therefore not been able to provide the necessary assurances regarding the financial reporting of the municipality.

Auditor-General

East London

30 November 2012



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